

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2019/2020

### BMB3024 – MONEY AND BANKING

( All sections / Groups )

21 OCTOBER 2019

2:30 p.m. – 4:30 p.m.

( 2 Hours )

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#### INSTRUCTIONS TO STUDENTS

1. This question paper consists of **THREE (3)** printed pages, excluding the cover page.
2. This question paper consists of **TWO (2)** sections, **SECTION A** and **SECTION B**. Both sections consist of **TWO (2)** questions each respectively.
3. Marks are shown for each question.
4. Write all your answers in the answer booklet provided.
5. Answer **ALL** questions.

Answer ALL questions.

### Section A: Case-study (60 marks)

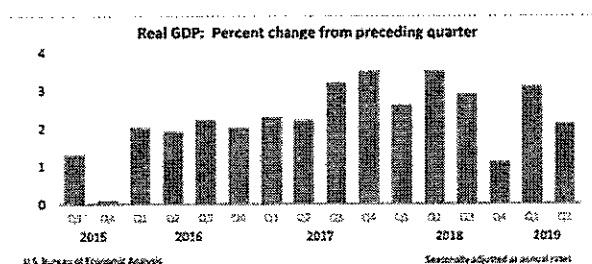
#### Question One (30 marks)

Read the extract of a news article below and answer the following questions.

#### **GDP Growth Is Slowing After Tax Cut**

By Chuck Jones

29 July 2019



The Bureau of Economic Analysis or BEA reported that the economy grew at a 2.1% rate in the June quarter, falling from 3.1% in the March quarter. The report also shows that the economy's growth rate peaked a year ago at 3.2% based on year-to-year comparisons, right in the

middle of the tax cut impact. This should seal the Fed lowering its target interest rate next week.

Multiple economic indicators telegraphed the lower growth rate. Railroad traffic had been lower every week for all three months, PMI and multiple regional reports have been negative and almost 70% of CFO's are predicting a recession by the end of 2020, which meant they could be cautious in their spending.

It is helpful to adjust for the impact from inventories since they tend to balance out over multiple quarters. Trade is another category to be wary of in any given quarter, as over the past five years it has had a negative impact ranging from 0.16% to 0.73% on GDP growth. *Trade can have a large impact to the GDP calculation as companies try to adjust their imports or exports due to external factors such as Trump's tariffs.*

Since Trump has been in office the year-to-year comparisons have ranged from 2.1% to 3.2%, and have only been above 3% for the June and September 2018 quarters (3.2% and 3.1%, respectively) when the tax cuts were probably having their largest impact (it wound up at 2.9% for the full year). Government spending can have an outsized impact in any quarter, but that also means that is built on more debt being issued.

There are four major components to GDP growth: consumer spending, business investment, trade and government spending with the two most important being consumers and businesses. It appears that the economy is growing in the mid-2% area, which is about what it was doing in Obama's last few years in office and is not close to achieving Trump's boast of at least 3% if not 4%, 5% or even 6%.

Source : <https://www.forbes.com/sites/chuckjones/2019/07/29/gdp-growth-is-slowing-after-the-tax-cut-sugar-rush/#5e1fdccd4aa7>

Continued ...

Based on the extract of the news article, answer the following questions.

- (a) Explain the direction of the current economic indicators of the US economy. (10 marks)
- (b) Explain how does the statement "*Trade can have a large impact to the GDP calculation as companies try to adjust their imports or exports due to external factors such as Trump's tariffs*" affects US' international trade. (6 marks)
- (c) When we compare between USD and RM, the US foreign exchange market is an expression of RM/USD and the quantity of dollar assets. Based on the demand for domestic assets, graphically explain the effect on RM/USD when the FED decreases US' interest rates. (9 marks)
- (d) Explain how would a decrease in US' interest rates affects the demand for domestic assets in Malaysia's foreign exchange market. (5 marks)

### **Question Two (30 marks)**

Read the passage below and answer the following questions.

#### **WeLab gets Hong Kong's fourth online-only banking licence**

Reported by Julia Fioretti; Edited by Himani Sarkar

10 April 2019

HONG KONG, April 10 (Reuters) - WeLab Digital Limited was awarded Hong Kong's fourth online-only banking licence on Wednesday, the Hong Kong Monetary Authority said in a statement, giving the fintech company access to a lucrative retail banking market in the Asian financial hub.

WeLab is a fintech company that offers mobile lending services primarily in Hong Kong and mainland China. The HKMA had previously granted virtual banking licences to joint ventures of Standard Chartered and BOC Hong Kong as well as to a subsidiary of ZhongAn Technologies International Group, the international arm of Chinese online insurer ZhongAn Online P&C Insurance.

The introduction of online-only banking has the potential to be the biggest shake-up in years in the city's retail banking sector dominated by old-guard lenders such as HSBC, StanChart and a slew of Chinese banks.

Many consumers are unhappy with the current options, however the entrenched position of current retail banks is expected to be a major challenge for the new online-only entrants. "The introduction of virtual banks in Hong Kong is a key pillar supporting Hong Kong's entry into the smart banking era," the HKMA said in the statement announcing WeLab's licence.

"Virtual banks will not only help drive FinTech and innovation, but also bring about brand new customer experiences and further promote financial inclusion in Hong Kong."

**Continued ...**

The HKMA said WeLab intended to launch its services within six to nine months. Some 33 virtual banking applications were submitted by the deadline of Aug. 31 last year. The HKMA short-listed eight, and said on Wednesday it was making good progress on the remaining four applications.

With the current trend of e-commerce, virtual banks will be able to provide individuals with the convenience of mobile banking. Besides individuals, small firms, which have long complained of difficulties in opening bank accounts in Hong Kong, will also be targeted by the new online lenders, with small loans, foreign exchange and payment services among those on offer.

Source : <https://www.reuters.com/article/hongkong-banking-digital-welab/welab-gets-hong-kongs-fourth-online-only-banking-licence-idUSL8N21S2KW>

Based on the passage above, answer the following questions.

- (a) Discuss three main reasons that prompted Hong Kong Monetary Authority (HKMA) to initiate virtual banking in Hong Kong. (9 marks)
- (b) In your opinion, why does WeLab Digital Limited venture into virtual in Hong Kong? Express four opinions. (12 marks)
- (c) Deliberate the possible downside of virtual banking. (9 marks)

### **Section B: Short Questions (40 marks)**

#### **Question One (20 marks)**

- (a) The central bank's monetary base (MB), is equivalent to currency (C) plus reserves (R). If  $r$  is the required reserve ratio,  $e$  is the excess reserves ratio and  $c$  is the currency ratio, derive the money multiplier,  $m$  for  $M1$ . (10 marks)
- (b) Apply Keynes' Liquidity Preference Theory and Milton Friedman's Portfolio Theory of Money Demand to explain monetary policy stance of a central bank when the demand for money is sensitive to interest rates. (10 marks)

#### **Question Two (20 marks)**

- (a) Explain, with an appropriate diagram, the effect of an unsterilized purchase of RM through the sales of US assets in the international foreign exchange market. (8 marks)
- (b) Discuss four problems currently faced by European Union (EU) that can be a lesson to ASEAN that is heading towards greater economic integration. (12 marks)

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